

**REQUEST FOR INFORMATION  
CORPORATE GOVERNANCE SERVICES  
including:  
Corporate Governance Research and Proxy Services  
Iran/Sudan Research Services  
Iran/Sudan Engagement Services**

**Introduction and Purpose**

The Maryland State Retirement Agency (the “Agency”) is distributing this Request For Information (“RFI”) to consulting firms or investment management firms wishing to provide certain corporate governance services to the Maryland State Retirement and Pension System (the “System”). The Board of Trustees of the System, through its Corporate Governance Committee, is committed to actively, and prudently, addressing poor corporate governance practices or regulatory constructs, and otherwise responding to issues affecting the integrity of the capital markets and market participants, utilizing the tools and method available to proponents of good corporate governance.

It is the Agency’s intention to choose one or more firms from this process to provide services for the Agency. The Agency may (i) choose one or more firms to provide only one type of services described in this RFI, (ii) choose one or more firms to provide multiple types of services described in this RFI, or (iii) determine not to choose any firms to provide services described in this RFI. The RFI describes three areas for which the Agency is seeking services with respect to the Program. The areas are **(1) Corporate Governance Research and Proxy Services, (2) Iran/Sudan Research Services, and (3) Iran/Sudan Engagement Services**. Firms may respond to the RFI with respect to one, two or all three of the services outlined in this RFI. Additionally, firms may offer the services jointly with another firm or firms. The System intends to contract with one or more firms to provide the services specified in this solicitation for a 5-year period beginning February 1, 2011, with the option for two (2) successive one (1) year renewal periods.

The Board of Trustees for the System manages a diversified investment portfolio valued at approximately \$34.2 billion as of September 30, 2011 for the exclusive benefit of participants of the several retirement and pension systems for state employees, teachers and employees of participating municipalities. The System’s asset allocation is available on the Agency’s website, [http://sra.maryland.gov/Agency/Investment/Downloads/Quarterly\\_Report-2011-09.pdf](http://sra.maryland.gov/Agency/Investment/Downloads/Quarterly_Report-2011-09.pdf).

Please see Exhibit A for a copy of Section 21-123.1 (Divestiture from Iran and Sudan) of the State Personnel and Pensions Article of the Annotated Code of Maryland which is referenced in this RFI.

Further information regarding the System is set forth in the System’s Comprehensive Annual Financial Report, a copy of which is available on the Agency’s website, <http://www.sra.state.md.us/Agency/Downloads/CAFR/Default.aspx>.

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**Timeline and Submission Details**

<b>Date</b>	<b>Action</b>
11/16/2011	RFI is issued.
11/30/2011 (4:00 P.M.)	Due date for questions relating to the RFI. All questions relating to the RFI must be submitted via e-mail to <a href="mailto:cbower@sra.state.md.us">cbower@sra.state.md.us</a>
12/9/2011	Answers to questions will be posted to the Agency's website <a href="http://www.sra.state.md.us">www.sra.state.md.us</a>
12/19/2011 (4:00 P.M.)	Responses to RFI must be submitted in hard copy (address below) <b>and</b> electronic copy to <a href="mailto:cbower@sra.state.md.us">cbower@sra.state.md.us</a> . Please note that the electronic submission <b>should not</b> contain a fee schedule.

Staff will review submissions and contact those firms, if any, from which it desires additional information.

If your firm wishes to respond to this RFI, then please return five (5) hard copies and one electronic copy of the firm's response to each of the attached questionnaires by 4:00 pm EST, December 19, 2011 to the address written below. Firms that respond to the RFI by submitting a proposal to provide one or more of the requested services will be referenced in this RFI as "Offerors". The term "Contractor" as used in this RFI refers to the Offeror who enters into a contract with the Agency pursuant to this RFI. As noted above, Offerors firms may respond to the RFI with respect to one, two or all three of the services outlined in this RFI. For ease of reference, questionnaires for each of the three service areas are attached to this RFI as **Attachment 1 - Corporate Governance Research and Proxy Services Questionnaire**, **Attachment 2 - Iran/Sudan Research Services Questionnaire**, and **Attachment 3 Iran/Sudan Engagement Services Questionnaire**. Please submit the appropriate questionnaires and fee schedules for each of the services for which you wish to be considered. Please note that only one copy of the fee schedule for each type of service should be sent in a separately marked envelope marked "Corporate Governance Services." The electronic submission **should not** contain a fee schedule.

Colleen Bower  
Maryland State Retirement Agency  
120 E. Baltimore Street, 16<sup>th</sup> Floor  
Baltimore, MD 21202  
[cbower@sra.state.md.us](mailto:cbower@sra.state.md.us)

On the submission's cover page please provide the firm's name, primary contact person's name, phone and fax numbers, email address and mailing address. Please also indicate the services for which you are responding.

Responding firms should give specific attention to the clear identification of those portions of its submission that it considers confidential, proprietary commercial information or trade secrets, and provide justification why such materials, upon request, should not be disclosed by the System under the Access to Public Records Act, Title 10, Subtitle 6, of the State Government Article of the

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Annotated Code of Maryland. A blanket statement declaring that the entire response is confidential is not sufficient.

All questions relating to the RFI should be submitted via e-mail to [cbower@sra.state.md.us](mailto:cbower@sra.state.md.us). Firms should not try to contact the System's CIO, Investment Division Staff, Board of Trustees, System's consultants or other Agency personnel to gain additional information regarding this RFI. Attempting to do so may result in the firm's disqualification.

Please note that the System will not be liable for any costs incurred with responding to this RFI. Also, the Agency reserves the right to evaluate submissions in its discretion. The Agency may decide to cancel the RFI at any time and reissue this or a similar request at a later date.

As part of the Questionnaire review process, the System has requested copies of the Offeror's standard form of service contract. Notwithstanding this request, the System reserves the right to require Contractors to sign the System's form of contract.

**Minority Business Enterprises (MBEs) are encouraged to respond to this RFI. Offerors who consider themselves to be minority contractors are encouraged to obtain certification from the Maryland Department of Transportation. A minimum certified Minority Business Enterprise subcontract participation goal has not been established for this RFI, but certified MBE subcontract participation may be considered in evaluating proposals under certain circumstances. Offerors are encouraged to utilize MBEs for any subcontracting opportunities that may arise. The Agency also encourages Offerors to include socially and economically disadvantaged individuals on the team responding to this solicitation, if applicable.**

### **POTENTIAL SCOPE OF SERVICES**

#### **(1) CORPORATE GOVERNANCE RESEARCH AND PROXY SERVICES**

The Agency is seeking a cost-effective corporate governance research and proxy voting solution that provides the System with a turn-key proxy voting service and robust research platform. The successful Offeror must demonstrate the ability to provide comprehensive and high quality corporate governance research and an advanced and customizable voting system.

- Corporate Governance Research including (1) company-specific analysis, (2) advisory voting recommendations, and (3) general research on environmental, social, and governance (ESG) issues research as well as corporate governance issues;
- Proxy Voting Agent Services including proxy vote execution, easily accessible on-line database, and reporting; and
- Proxy Consulting Services to assist in the development and implementation of proxy voting rules based on the System's Proxy Voting Guidelines.

## **REQUEST FOR INFORMATION CORPORATE GOVERNANCE SERVICES**

### **a) CORPORATE GOVERNANCE RESEARCH**

- Research providers should have an adequate and well communicated set of governance principles, proxy voting policies, and an analytical framework covering corporate finance and governance issues. A key goal of such research is to link voting recommendations with economic and financial value. Please submit recent samples of actual research and client voting recommendations.
- Complete coverage of all publicly traded equity investments, providing in-depth, high quality company research for all companies in which the System owns equity interests.
- Global research coverage to encompass any constituent company of the Russell 3000 index and the MSCI All Country World Index (ACWI). For the 12 months ended 10/1/2011, the System's proxy related activity in 151 accounts was:
  - ≡ Research reports for: 2,350 U.S./Canada companies, and 5,580 non-US/Canada companies.
  - ≡ Ballots voted: 3,980 U.S./Canada companies, and 8,070 non-US/Canada companies.
- Ability for Agency staff to communicate directly with research analysts and others involved with corporate governance research, in order to discuss individual company circumstances as well as broad policy methodology.
- Detailed research covering executive compensation.
- Detailed research relating to mergers and acquisitions.
- Detailed research relating to proxy contests, recapitalizations, charter and by-law amendments, and other highly contested voting scenarios.
- Detailed research relating to board elections and director qualifications, shareowner proposals, auditor ratifications, and other matters (both traditional and special case scenarios) that are brought before shareowners on proxy ballots.

### **(b) PROXY VOTING AGENT SERVICES**

- Deliver a turn-key proxy voting system enabling the Agency to access all proxy ballots, offering both company level and summary reporting capability.
- Voting system's reporting capabilities should include generating reports based on account, account group, date range, voted/unvoted ballots, company, shareowner proposal classification, vote recommendation, and/or individual ballot items. Reports should allow reasonable statistical analysis and be available on a timely basis.
- Adequate integration of research recommendations with proxy ballots, allowing the Agency to easily and efficiently evaluate individual proxy votes and make voting decisions online.
- Updated and accurate data available to the Agency on all relevant ballots and governance research services 24 hours a day.

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- Voting system should allow for the Agency to access company filings and other relevant company information, such as DEF 14A proxy materials, 10K/20F annual reports, etc.
- Voting system's capabilities to manage operational challenges in non-U.S. capital markets, such as illiquidity due to share-blocking provisions, split votes, and various sub-custodian limitations in the proxy voting chain.
- Voting system's (if applicable) ability to manage preferred stock, warrants, debt holdings and other special voting requirements.
- Disclosure and explanation of any circumstances where a governance research provider would not be able to execute proxy votes on the System's behalf or provide governance research recommendations to the Agency.
- Voting system should be regularly audited, and reconciliation conducted periodically to ensure votes have been cast in accordance with the System's Policy.
- A demonstration of an Offeror's current proxy voting system.

### **(c) PROXY CONSULTING SERVICES**

- Annual review, or more frequently as needed, and policy change recommendations for the System's Corporate Governance Policy.
- Research and ongoing development of topical research and white papers on various corporate governance issues, with a focus on empirical analysis and review of current academic and industry studies and reports.
- Ability to provide other ad-hoc reports and analyses requested by Agency staff.

### **(2) IRAN/SUDAN RESEARCH SERVICES**

The Agency is seeking a cost-effective research service to assist it in complying with Section 21-123.1. of the State Personnel and Pensions Article of the Annotated Code of Maryland entitled "Divestiture from Iran and Sudan." The successful Offeror must demonstrate the ability to provide comprehensive, high quality company-specific research which the Agency may access through an on-line research platform including:

- identification of companies that meet the criteria described in Section 21-123.1 (Divestiture from Iran and Sudan) of the of the State Personnel and Pensions Article of the Annotated Code of Maryland (copy attached as Exhibit A), with delivery of a list of the identified companies to designated Agency staff at least quarterly.
- description and analysis of identified companies.

The Agency would like to access the on-line research regarding identified companies. The Agency reviews the list of identified companies with the System's Board of Trustees and will share the results with managers of eligible accounts.

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### **(3) IRAN/SUDAN ENGAGEMENT SERVICES**

The Agency is seeking a firm that will engage in writing at least quarterly with all companies identified by the research service provider as companies doing business in Iran or Sudan as defined in Section 21-123.1 (Divestiture from Iran and Sudan) of the of the State Personnel and Pensions Article of the Annotated Code of Maryland (copy attached as Exhibit A).

The Agency will provide the list of identified companies to the Contractor on an on-going basis. The Contractor will prepare and send engagement letters to such companies in a format approved by the Agency at least quarterly. The Contractor shall also send follow-up letters in a format approved by the Agency to those companies that do not respond to the initial letter within 45 days. Additional follow-up by the Contractor as determined by the System may be required.

At 10/1/2011, eight (8) companies doing business in Iran, and one (1) company doing business in Sudan were engaged by the Agency's current contractor. The most recent list of engaged companies is on page 5 Agency's September 30, 2011 report to Legislature ([http://sra.maryland.gov/Agency/Investment/Downloads/MSRPS-Iran-Sudan\\_Divest\\_Report-2011-09.pdf](http://sra.maryland.gov/Agency/Investment/Downloads/MSRPS-Iran-Sudan_Divest_Report-2011-09.pdf)).

The Agency will provide the Contractor with letterhead and envelopes for the preparation, printing and delivery of the letters to the companies.

All responses from the companies will be sent to the Agency, who will forward them to the Contractor.

The Contractor will consolidate the analysis of responses from the companies and provide a written monthly summary report to the System.

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**ATTACHMENT 1**

**CORPORATE GOVERNANCE RESEARCH AND PROXY SERVICES**

**QUESTIONNAIRE**

If the firm is offering its services jointly with another firm or firms, please so indicate, and provide the information requested for all parties.

**A. ORGANIZATIONAL BACKGROUND**

1. Provide the following information with respect to the firm:
  - a. A brief history of the firm, including its year of organization, the ownership structure of the firm, including any parent, affiliated companies or joint venture, the percentage owned by current employees; and a list of the owners of at least 5% of the firm including individuals and all other entities.
  - b. The location of the firm's headquarters and any branch offices.
2. Describe any significant developments in the firm that have occurred since January 1, 2006 (changes in ownership, personnel reorganization, etc.).
3. Describe any anticipated changes in the firm's basic ownership structure or any other significant changes in the organization.
4. How many years has the firm been providing proxy services to investors? Please list each type of service and its inception date.
5. Does the firm provide non-proxy services to any clients? If so, please list each type of service, its inception date, and a brief description.
6. Provide a breakdown of the firm's revenues by source of business activity.
7. Does the firm accept soft dollars as payment for services?
8. Is the firm, its parent or an affiliate a registered investment advisor with the SEC under the Investment Advisers Act of 1940? If not, what is its fiduciary classification (as the term is defined by the Employee Retirement Income Security Act of 1974 [ERISA])?
9. If the firm or any of its affiliates provides consulting or other services to the same corporations whose proxies are being analyzed, how are conflicts of interest managed, disclosed and prevented?
10. Since January 1, 2006, has the firm, or any officer or principal been involved in any business litigation, regulatory or other legal proceedings or government investigation

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involving allegations of fraud, negligence, criminal activity or breach of fiduciary duty? If so, provide a description, explanation, and indicate the current status.

11. Describe the fiduciary or professional liability insurance the firm carries. List the insurance carriers supplying the coverage.

**B. DEPTH AND EXPERIENCE OF PERSONNEL**

1. Provide an organizational chart showing titles and functions of all personnel involved in providing proxy voting advisory services.
2. Provide an organizational chart showing titles and functions of all personnel involved in providing proxy voting agency services.
3. What is the turnover of professional and research staff for the past five years?
4. Provide a copy of the firm's Code of Ethics. Do the firm and its employees comply with the Code of Ethics and Standards of Professional Conduct of the CFA Institute (formerly the Association of Investment Management and Research or AIMR), if applicable?

**C. CLIENT COVERAGE AND REFERENCES**

1. What is the composition of the firm's client base, including non-investor clients? Provide the number and percentage of clients for the client types listed below. If the firm's investor client base is heavily weighted toward any particular type of investor, please provide an explanation.

Client Type  
Public Pension Funds  
Taft-Hartley Funds  
Corporate Pension Funds  
Endowments & Foundations  
Non-Investors  
Other (Specify)

2. Provide a current list of five (5) clients for proxy services similar to those requested by this solicitation, including client name, contact name, telephone number, number of years the client has retained the firm, the product(s) or service(s) the client uses and the client's total assets. This list should include at least three (3) public fund clients whose assets are greater than \$5 billion. The Agency reserves the right to contact any of the clients named to request references.



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### **D. SERVICES REQUESTED**

If the firm does not provide the requested service, please respond with “not applicable”.

#### **RESEARCH**

1. Does the firm offer proxy research and advice? If yes, describe it in detail. Include a description of the coverage universe and any quantitative or other models used. Please attach the most recent advisory proxy research created by the firm for Bank of America Corporation (BAC), News Corporation (NWS), and Chesapeake Energy Corporations (CHK).
2. Does the firm produce research on corporate governance issues? If yes, please describe it in detail, and include a description of the coverage universe. Please provide at least two (2) examples of research published in 2011. Suggested topics are the disclosure of political contributions, majority voting, and the separation of CEO and Chairman.
3. Does the firm publish research on environmental and social issues? If yes, please describe it in detail, and include a description of the coverage universe. Please provide at least two (2) examples of research published in 2011. Suggested topics are hydraulic fracturing, board diversity and human rights at non-US subsidiaries.
4. Does the firm offer an on-line research database that may be accessed by the System? If yes, describe in detail.

#### **PROXY VOTING AGENT**

5. Does the firm offer proxy voting agent services? If yes, describe in detail the firm’s proxy voting agency service.

#### **CUSTOM VOTING POLICY**

6. The System’s current Corporate Governance and Proxy Voting Guidelines are attached as Exhibit B to this RFI. Describe how the firm would consult with the Agency to develop proxy voting rules in order to implement the System’s proxy voting guidelines. The Agency’s goal is to implement the System’s proxy voting guidelines in such a manner as to minimize the need for overrides or manual voting.

#### **REPORTING CAPABILITIES**

7. Describe in detail how the firm would report proxy voting activity to the System. Please provide sample reports for both a US equity and global portfolio.
8. Describe how the System could receive consolidated proxy voting reporting for all the System’s portfolios.

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**E. RESEARCH CAPABILITIES**

1. Describe the internal structure and organization of the firm's research department. (If no separate department exists, describe how this function is structured).
2. What percent of the firm's revenues are annually invested in the firm's research function?
3. Describe the manner in which internal and external resources and sources of information are used in the research process.
4. Does the firm provide research reports other than those specifically requested by the client? If so, please describe and provide samples.
5. Provide a listing of research generated during 2011 other than routine proxy analyses. Include the title, date of issue, and a description of the subject.
6. If additional analytical resources are provided and made available to clients by the firm, please describe them and provide samples.
7. Describe the process for monitoring and reporting on market trends and issues for the coming season. Describe the capabilities for reporting and tracking international trends and influences.
8. What Internet-based tools does the firm provide to clients?

**F. FEES**

Provide a combined fee schedule for all services requested and describe how the fees are calculated.

For pricing purposes, assume that there will be 3,980 U.S./Canada and 8,070 non-US/Canada proxies to research and be voted.

The System's custodian uses Broadridge for proxy voting, and will reconcile the ballots. The System directs its Securities Lending Agent to recall all US securities to be voted in order to vote the proxies. Non-US securities on loan are not recalled.

**G. OTHER**

1. Please provide a copy of the firm's most recent audited financial statements, ADV, and SSAE 16 if applicable.
2. Please provide a copy of the firm's standard contract for the services being offered.

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**ATTACHMENT 2**

**IRAN/SUDAN RESEARCH SERVICES**

**QUESTIONNAIRE**

**A. ORGANIZATIONAL BACKGROUND**

1. Provide the following information with respect to the firm:
  - a. A brief history of the firm, including its year of organization, a description of the ownership structure of the firm, a list of the owners of the firm including individuals and other entities, and the percentage owned by current employees.
  - b. The location of the firm's headquarters and any branch offices
2. Describe any significant developments in the organization that have occurred since January 1, 2006 (changes in ownership, personnel reorganization, etc.).
3. Describe any anticipated changes in the organization's basic ownership structure or any other significant changes in the organization.
4. How many years has the firm been providing research services similar to those requested to investors? Please list each service and its inception date, and indicate which are most correlated with the services being requested.
5. Does the firm provide non-research services to any clients? If so, please list each type of service, its inception date, and a brief description.
6. Provide a breakdown of the firm's revenues by source of business activity.
7. Does the firm accept soft dollars as payment for services?
8. Is the firm, its parent or an affiliate a registered investment advisor with the SEC under the Investment Advisers Act of 1940? If not, what is its fiduciary classification (as the term is defined by the Employee Retirement Income Security Act of 1974 [ERISA])?
9. How are conflicts of interest managed, disclosed or prevented if the firm or its affiliates provides consulting services to the same corporations who are identified as doing business in Iran or Sudan?
10. Since January 1, 2006, has the firm, or any officer or principal been involved in any business litigation, regulatory or other legal proceedings or government investigation involving allegations of fraud, negligence, criminal activity or breach of fiduciary duty? If so, provide a description, explanation, and indicate the current status.
11. Describe the fiduciary or professional liability insurance the firm carries. List the insurance carriers supplying the coverage.

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**B. DEPTH AND EXPERIENCE OF PERSONNEL**

1. Provide an organizational chart showing titles and functions of all personnel involved in providing the requested research services.
2. What is the turnover of professional and research staff for the past five years?
3. Provide a copy of your Code of Ethics. Do the firm and its employees comply with the Code of Ethics and Standards of Professional Conduct of the CFA Institute (formerly the Association of Investment Management and Research or AIMR), if applicable?

**C. CLIENT COVERAGE AND REFERENCES**

1. What is the composition of the firm's client base, including non-investor clients? Provide the number and percentage of clients for the clients types listed below. Provide an explanation if the firm's client base is heavily weighted to any particular type of investor.

Client Type

Public Pension Funds

Taft-Hartley Funds

Corporate Pension Funds

Endowments & Foundations

Institutional Investors

Other (Specify)

2. Provide a current list of five (5) clients subscribing to research services similar to those requested, including client name, contact name, telephone number, number of years the client has retained your firm, the product(s) or service(s) the client uses and the client's total assets. This list should include at least three (3) public fund clients whose assets are greater than \$1 billion. The Agency reserves the right to contact any of the clients named to request references.

**D. SERVICES REQUESTED**

1. Describe in detail how the firm identifies entities doing business in Iran and Sudan and determines what kind of business the company is conducting.
2. Describe in detail how the firm would report the information requested to the System. Please include sample reports.
3. Describe in detail how often and in what manner changes are monitored and reported.

**E. RESEARCH AND REPORTING CAPABILITIES**

1. Describe the internal structure and organization of the firm's research department. What percent of the firm's revenues are annually invested in the firm's research function?

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2. Describe the manner in which internal and external resources and sources of information are used in the research process.
3. Please provide a sample of the reports that the firm proposes providing to the System.
4. Please describe any research reports other than those specifically requested by its clients and provide samples, if available.
5. Please describe any other analytical resources the firm makes available to its clients and provide samples, if available.
6. Please describe any Internet based analytical resources the firm makes available to its clients and provide samples, if available.

**F. FEES**

Provide a fee schedule for the research service being offered, including a description of how it is calculated.

**G. OTHER**

1. Please provide a copy of the firm's most recent audited financial statements, ADV, and SSAE 16 if applicable.
2. Please provide a copy of the firm's standard contract for the services being offered.

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**ATTACHMENT 3**

**IRAN/SUDAN ENGAGEMENT SERVICES**

**QUESTIONNAIRE**

**A. ORGANIZATIONAL BACKGROUND**

1. Provide the following information with respect to the firm:
  - a. A brief history of the firm, including its year of organization, a description of the ownership structure of the firm, a list of the owners of the firm including individuals and other entities, and the percentage owned by current employees.
  - b. The location of the firm's headquarters and any branch offices
2. Describe any significant developments in the organization that have occurred since January 1, 2006 (changes in ownership, personnel reorganization, etc.).
3. Describe any anticipated changes in the organization's basic ownership structure or any other significant changes in the organization.
4. How many years has the firm been providing engagement services similar to those requested to investors? Please list each service and its inception date, and indicate which are most correlated with the services being requested.
5. Does the firm accept soft dollars as payment for services?
6. Does the firm provide non-research services to any clients? If so, please list each type of service, its inception date, and a brief description.
7. Provide a breakdown of the firm's revenue by source of business activity.
8. Is the firm, its parent or an affiliate a registered investment advisor with the SEC under the Investment Advisers Act of 1940? If not, what is its fiduciary classification (as the term is defined by the Employee Retirement Income Security Act of 1974 [ERISA])?
9. How are conflicts of interest managed, disclosed or prevented if the firm or its affiliates provides consulting services to the same corporations who are identified as doing business in Iran or Sudan?
10. Since January 1, 2006, has the firm, or any officer or principal been involved in any business litigation, regulatory or other legal proceedings or government investigation involving allegations of fraud, negligence, criminal activity or breach of fiduciary duty? If so, provide a description, explanation, and indicate the current status.
11. Describe the fiduciary or professional liability insurance the firm carries. List the insurance carriers supplying the coverage.

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**B. DEPTH AND EXPERIENCE OF PERSONNEL**

1. Provide an organizational chart showing titles and functions of all personnel involved in providing the requested engagement services.
2. What training is provided to the engagement team?
3. What is the level of seniority of current engagement team members?
4. What is the turnover of professional and engagement staff for the past five years?
5. Provide a copy of your Code of Ethics. Do the firm and its employees comply with the Code of Ethics and Standards of Professional Conduct of the CFA Institute (formerly the Association of Investment Management and Research or AIMR), if applicable?

**C. CLIENT COVERAGE AND REFERENCES**

1. What is the composition of the firm's client base, including non-investor clients? Provide the number and percentage of clients for the clients types listed below. Provide an explanation if the firm's client base is heavily weighted to any particular type of investor.

Client Type

Public Pension Funds

Taft-Hartley Funds

Corporate Pension Funds

Endowments & Foundations

Institutional Investors

Other (Specify)

2. Provide a current list of five (5) clients contracting for engagement services similar to those requested, including client name, contact name, telephone number, number of years the client has retained your firm, the product(s) or service(s) the client uses and the client's total assets. This list should include at least three (3) public fund clients whose assets are greater than \$1 billion. The Agency reserves the right to contact any of the clients named to request references.

**D. ENGAGEMENT CAPABILITIES**

1. Describe the internal structure and organization of the firm's engagement team.
2. Describe the manner in which internal and external resources and sources of information are used in the engagement process.
3. Please describe any other analytical resources the firm makes available to its clients and provide samples, if available.
4. Please describe any Internet based analytical resources the firm makes available to its clients and provide samples, if available.

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**E. SERVICES REQUESTED**

1. Describe in detail the firm's engagement process.
2. Describe in detail how the firm would report the information obtained during engagement to the System. Please include sample reports.

**F. FEES**

Provide a fee schedule for the engagement services being offered, including a description of how it is calculated.

**G. OTHER**

1. Please provide a copy of the firm's most recent audited financial statements, ADV, and SSAE 16 if applicable.
2. Please provide a copy of the firm's standard contract for the services being offered.



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**Exhibit A**

**Annotated Code of Maryland  
State Personnel and Pensions Article**

**§ 21-123.1. Divestiture from Iran and Sudan**

(a) Definitions. --

(1) In this subtitle the following words have the meanings indicated.

(2) (i) "Actively managed separate accounts" means the accounts of the several systems that are actively managed at the direction of the Board of Trustees and held in separate accounts.

(ii) "Actively managed separate accounts" does not mean indexed funds, private equity funds, real estate funds, or other commingled or passively managed funds.

(3) "Company" means any corporation, utility, partnership, joint venture, franchisor, franchisee, trust, entity investment vehicle, financial institution, or a wholly owned subsidiary of any of these entities.

(4) "Divestment action" means selling, redeeming, transferring, exchanging, otherwise disposing of, and refraining from further investment in certain investments.

(5) "Doing business in Iran" means the company has, with actual knowledge, on or after August 5, 1996, made an investment of \$ 20,000,000 or more, or any combination of investments of at least \$ 10,000,000 each, which in the aggregate equals or exceeds \$ 20,000,000 in any 12-month period, and which directly or significantly contributes to the enhancement of Iran's ability to develop the petroleum or natural gas resources of Iran.

(6) "Doing business in Sudan" means engaging in commerce in Sudan by maintaining or leasing equipment, facilities, personnel, or other apparatus of business or commerce in oil-related activities, mineral extraction activities, power production activities, or production of military equipment of Sudan.

(7) "Eligible accounts" means actively managed separate accounts containing funds of the several systems.

(8) "Government of Iran" means the government of Iran, its instrumentalities, and companies owned or controlled by the government of Iran.

(9) "Investment" means the commitment of funds or other assets to a company, including:

(i) the ownership or control of a share or interest in the company; or

(ii) the ownership or control of a bond or other debt instrument of a company.

(10) "Iran" means the Islamic Republic of Iran.

(11) (i) "Sudan" means the government in Khartoum, Sudan, that is led by the National

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Congress Party (formerly known as the National Islamic Front) or any successor government formed on or after October 13, 2006, including the Coalition National Unity Government agreed on in the Comprehensive Peace Agreement for Sudan.

(ii) "Sudan" does not mean the regional government of southern Sudan.

(b) Review of investments. -- The Board of Trustees shall review the investment holdings in eligible accounts for the purpose of determining the extent to which funds in eligible accounts are invested in companies doing business in Iran or Sudan.

(c) Notice and opportunity to comment. --

(1) Except as otherwise provided in this section, and consistent with the fiduciary duties of the Board of Trustees under Subtitle 2 of this title and all other applicable law, the Board of Trustees shall, within 30 days of its review under subsection (b) of this section, provide written notice and opportunity to comment to a company in which eligible accounts are invested and that has been identified as doing business in Iran or Sudan.

(2) Any notice provided by the Board of Trustees under paragraph (1) of this subsection shall state that the company shall be subject to divestment action by the Board of Trustees unless the company provides written comments within 90 days to the Board of Trustees:

(i) demonstrating that the company is not doing business in Iran or Sudan; or

(ii) stating that, within 60 days of providing written comments to the Board of Trustees under this paragraph, the company will produce a plan to end doing business in Iran or Sudan within 1 year.

(3) If the company demonstrates to the satisfaction of the Board of Trustees that it is not doing business in Iran or Sudan, the Board of Trustees may not take any divestment action against the company.

(4) (i) If within 60 days of providing written comments to the Board of Trustees under paragraph (2) of this subsection, the company produces a plan to cease doing business in Iran or Sudan within 1 year, the Board of Trustees may not take any divestment action against the company.

(ii) If the Board of Trustees does not take any divestment action under subparagraph (i) of this paragraph, the Board of Trustees shall monitor the progress of the company's plan to cease doing business in Iran or Sudan over the 12 months immediately following receipt of the plan.

(iii) If the company ceases doing business in Iran or Sudan within 1 year, the Board of Trustees may not take any divestment action against the company.

(iv) If the company does not cease doing business in Iran or Sudan within 1 year, the Board of Trustees shall take divestment action against the company as provided in subsection (d) of this section.

(d) Divestment action. -- Except as provided in subsections (c) and (e) of this section, the Board of Trustees:

(1) shall take divestment action in eligible accounts with regard to current investments:

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(i) in any company doing business in Iran or Sudan; or

(ii) in any security or instrument issued by Iran or Sudan; and

(2) may not make any new investments from net new funds in an eligible account in any company that is doing business in Iran or Sudan as determined in accordance with the procedures set forth in subsection (c) of this section.

(e) Exclusion. -- Notwithstanding the provisions of this section, the Board of Trustees may exclude from the provisions of subsections (c) and (d) of this section, a company:

(1) that the United States government affirmatively declares to be excluded from its federal sanctions regime relating to Iran or Sudan; and

(2) whose divestment cannot be executed for fair market value or greater.

(f) Written notice of decision of divestment. -- If the Board of Trustees takes divestment action under subsection (d) of this section, with respect to investments in a company, the Board of Trustees shall provide the company with written notice of its decision and reasons for the decision.

(g) Report. -- On or before October 1 of each year, and every 6 months thereafter, the Board of Trustees shall submit a report in accordance with § 2-1246 of the State Government Article to the Senate Budget and Taxation Committee, the House Appropriations Committee, and the Joint Committee on Pensions that provides:

(1) a summary of correspondence with companies engaged by the Board of Trustees under this section;

(2) all divestment actions taken by the Board of Trustees in accordance with this section;

(3) a list of companies doing business in Iran or Sudan which the Board of Trustees has determined to be ineligible for investments of net new funds under subsection (d)(2) of this section; and

(4) other developments relevant to investment in companies doing business in Iran or Sudan.

(h) No liability for actions taken in good faith. -- The Board of Trustees, or any other fiduciary of the several systems, may not be held liable for any actions taken or decisions made in good faith for the purpose of complying with or executing the requirements of any divestment provisions under this subtitle.

(i) Good faith action. -- The Board of Trustees shall act in good faith to carry out divestment action as required by this section in compliance with all applicable State and federal law, including relevant judicial decisions and the federal Sudan Accountability and Divestment Act of 2007.

(j) Good faith action -- Certain action not required. -- Nothing in this section shall require the Board of Trustees to take action as described in this section unless the Board of Trustees determines, in good faith, that the action is consistent with the fiduciary responsibilities of the Board of Trustees as described in Subtitle 2 of this title.

# **REQUEST FOR INFORMATION CORPORATE GOVERNANCE SERVICES**

## **Exhibit B**

### **CORPORATE GOVERNANCE & PROXY VOTING POLICY Updated March 15, 2011**

#### **I. CORPORATE GOVERNANCE & PROXY VOTING**

The Board of Trustees of the Maryland State Retirement and Pension System (the “System”), through its Corporate Governance Committee, is committed to actively, and prudently, addressing poor corporate governance practices or regulatory constructs, and otherwise responding to issues affecting the integrity of the capital markets and market participants, utilizing the tools and methods available to proponents of good corporate governance. The extent of the Committee’s actions would vary on a case-by-case basis.

##### Proxy Voting

The Board believes that the voting of proxies is a fundamental aspect of stock ownership, and recognizes that proxy voting issues that are not addressed by the System’s existing policy or are novel and/or controversial can quickly arise during a given proxy season. Accordingly, the Corporate Governance Committee will on an ongoing basis, with the assistance of staff and consultants, recommend revisions and updates to the System’s Proxy Voting Guidelines. It is acknowledged and understood that the Proxy Voting Guidelines will determine how the System’s proxies are voted on the vast majority of issues. The Committee may delegate authority to Investment Division Staff to vote proxies in accordance with the voting decision of one of the System’s activist managers, who employ proxy voting as a part of their investment strategy, with notice to the Corporate Governance Committee, in instances where the Chief Investment Officer determines that such voting decision would be in the best interest of the System

##### Securities Lending

In the US market, the System recalls all stocks that are on loan in order to vote the proxies. While this reduces the possible income from securities lending, it is not a substantial percent of the System’s total income from its securities lending program. In contrast, the lending of international stocks generates more than 50% of the income the System earns from securities lending,. As a result, the System will not recall international stocks in order to vote the proxies.

Shareblocking occurs in a number of global markets. It is the practice of freezing shares from trading or lending, by both the custodian and the local sub-agent, due to proxy voting activity. Shareblocking will generally begin after the voting instructions are processed downstream to the local market for a given meeting, and typically ends shortly after the meeting. It is important to note that voting deadlines in international markets are usually well in advance of a meeting, leading to potential blocking periods of days or weeks. This can hinder a manager’s ability to execute trades.

If shares need to be unblocked due to a pending trade, a request can be made through the System’s proxy voting agent to rescind vote instructions in the local market, although no guarantees can be made that the votes will be pulled by the local agent.

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The following Proxy Voting Guidelines have been adopted by the Board of Trustees:

### **II. GENERAL or US PROXY VOTING GUIDELINES**

*Adopted by the Board of Trustees March 15, 2011.*

#### ***Routine/Miscellaneous***

##### **Adjourn Meeting**

Generally vote against proposals to provide management with the authority to adjourn an annual or special meeting absent compelling reasons to support the proposal. Vote for proposals that relate specifically to soliciting votes for a merger or transaction if supporting that merger or transaction. Vote against proposals if the wording is too vague or if the proposal includes "other business."

##### **Change Company Name**

Generally vote for proposals to change the corporate name.

##### **Transact Other Business**

Vote against proposals to approve other business when it appears as voting item.

##### **Ratify Auditor**

Vote for proposals to ratify auditors, unless: (1) an auditor has a financial interest in or association with the company, and is therefore not independent; (2) fees for non-audit services are excessive (greater than audit fees), or (3) there is reason to believe that the independent auditor has rendered an opinion, which is neither accurate nor indicative of the company's financial position.

#### ***Board of Directors***

##### **Voting for Directors**

Directors should be elected by a majority of the shareholders casting votes.

All votes for directors should be evaluated on a case-by-case basis. This will be based on several factors, including:

Long-term company financial performance relative to a market index,

The composition and level of independence of the board and key board committees,

Individual attendance history (attendance at 75% of all meeting is expected),

Corporate governance provisions and takeover activity,

Directors' investment in the company,

- Whether the chairman also serves as CEO or other corporate officer,
- Previous experience on the Board,
- Role in previous Board actions

Specifically, votes should be withheld from U.S. directors who:

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- Attended fewer than 75 percent of the board and committee meetings without a valid reason for the absences. Valid reasons include illness or absence due to company business. Participation via telephone is acceptable. In addition, if the director missed only one meeting or one day's meetings, votes should not be withheld even if such absence dropped the director's attendance below 75 percent;
- Own no company stock or equivalent and have served on the board for more than three years;
- Are director nominees and the board has more than 20 members or fewer than six members;
- Are inside directors or affiliated outside directors and the full board is less than majority independent;
- Are inside directors or affiliated outside directors and sit on the audit, compensation, or nominating committee;
- Sit on more than five public company boards or are CEOs of public companies and sit on more than two public company boards besides their own;
- Are compensation committee members and the company has poor compensation practices; and,
- Ignored a shareholder proposal that was approved by either a majority of the shares outstanding in any year or by the majority of votes cast for two consecutive years;
- Have adopted a poison pill without shareholder approval since the company's last annual meeting and where there is no requirement to put the pill to shareholder vote within 12 months of its adoption
- Have kept in place a dead-hand or modified dead-hand poison pill;
- Have failed to replace management as appropriate.

### **Qualifications of Outside Directors**

Election of directors should be on a case-by-case basis and not constrained by arbitrary limits such as age or term limits.

Directors with full-time jobs should not serve on more than three for-profit corporations' boards. No director should serve on more than five for-profit corporate boards. Currently serving CEOs should only serve as a director of one other company.

### **Age/Term Limits**

Generally oppose age/term limits because time served is not a substitute for a thoughtful evaluation of director performance.

### **Board Size**

The board of directors should have at least six and not more than 20 members. Shareholders should be allowed to vote on any major change in board size.

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### **Classified Boards of Directors**

All directors should be elected annually.

### **Cumulative Voting for Directors**

Generally favor resolutions that eliminate cumulative voting, but all votes for cumulative voting should be evaluated on a case-by-case basis.

### **Indemnification of Directors**

Evaluated on a case-by-case basis using Delaware law as the standard.

Vote against proposals that would:

Eliminate entirely directors' and officers' liability for monetary damages for violating the duty of care.

### **Separate Chairman and CEO**

Generally vote for the separation of the chairman and CEO positions.

### **Majority Vote Shareholder Proposals**

Vote for reasonably crafted shareholders proposals calling for directors to be elected with an affirmative majority of votes cast and/or the elimination of the plurality standard for electing directors (including binding resolutions requesting that the board amend the company's bylaws), provided the proposal includes a carve-out for a plurality voting standard when there are more director nominees than board seats (e.g. contested elections).

### **Minimum Stock Ownership for Directors**

Directors should own a meaningful position in the company's common stock, appropriate to their personal circumstances.

### **Independence of Board Members**

A substantial majority (at least two-thirds) of the board should be directors who are independent.

An independent director is someone whose only nontrivial professional, familial or financial connection to the corporation, its chairman, CEO or any other executive officer is his or her directorship.

### **Committees of the Board**

The three key board committees (audit, compensation, and nominating) should consist solely of independent outside directors. The board, not the CEO, should appoint these members. The creation and membership of other committees will be reviewed on a case-by-case basis.

### **Shareholder Access to the Board**

All directors should attend the annual shareholders' meeting and be available, when requested by the chair, to answer shareholder questions.

Shareowners should have effective access to the director nomination process.

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### **Board Communications with Shareholders**

Shareholders should have the ability to communicate effectively with the board of directors. Formal procedures should be created to enable shareholders to communicate their views and concerns directly to board members.

### ***Shareholder Rights & Defenses***

#### **Nominations to the Board of Directors**

Shareowners should have effective access to the director nomination process.

#### **Annual Meeting**

Vote against proposals to cancel the annual shareholders meeting or to reduce the quorum required.

Support proposals that encourage meaningful meetings that are open to shareholders.

#### **Amend Bylaws without Shareholder Consent**

Shareholders should always be allowed to vote on amendments to the bylaws.

Vote against proposals giving the board exclusive authority to amend the bylaws.

#### **Bundled Issues**

Shareholders should be allowed to vote on unrelated issues separately. Vote bundled or "conditioned" proposals on a case-by-case basis taking into account the aggregate effect of the items.

#### **Confidential Voting at Annual Meetings**

Shareholders should be able to cast proxy votes in a confidential manner to a proxy tabulator independent of management, except in circumstances of a contest for control.

#### **Opt Out of State Anti-Takeover Statutes**

Generally, vote in favor of resolutions that remove a company from anti-takeover statutes in its state of incorporation.

#### **Payment of Greenmail**

Generally vote in favor of resolutions prohibiting management from repurchasing the stock of an individual investor unless all shareholders are extended the opportunity to participate in the transaction.

#### **Poison Pills (or Shareholder Rights Plans)**

Vote for proposals to redeem existing poison pills. Shareholders should have the right to approve any new poison pills. Any new poison pill resolutions should be evaluated on a case-by-case basis. .



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### **Changing State of Incorporation**

Generally oppose proposals to reincorporate in jurisdictions that would result in a weakening of shareholder rights unless there are overriding benefits to shareholders.

### **Shareholders' Ability to Act by Written Consent**

Vote against proposals to restrict or prohibit shareholders' ability to take action by written consent. A majority of shareowners should be able to act by written consent.

### **Shareholders' Ability to Call Special Meetings**

Vote against proposals to restrict or prohibit shareholder ability to call special meetings, and for proposals that remove restrictions on the right of shareholders to act independently of management.

### **Supermajority Voting Provisions**

In general, vote against super-majority proposals, except if necessary to protect the interests of minority stockholders where there is a single dominant shareholder.

### ***Capital/Restructuring***

#### **1. Capital**

##### **Dual-class Stock or Unequal Voting Shares**

Shareholders should have the right to a vote in proportion to their economic stake in the company. Each share of common stock should have one vote. (One Share-One Vote)

Authorized unissued common shares that have voting rights should not be issued with unequal voting rights without shareholder approval.

##### **Increased Common Shares**

Evaluate on a case-by-case basis. Generally, vote against any increases in authorized common shares where management's only purpose is to discourage unwanted bids for the company's stock.

##### **Stock Distributions: Splits and Dividends**

Vote for management proposals to increase the common share authorization for a stock split or share dividend, provided that the increase in authorized shares would not result in an excessive number of shares available for issuance.

##### **Reverse Stock Split**

Vote for management proposals to implement a reverse stock split when the number of authorized shares will be proportionately reduced. Vote for management proposals to implement a reverse stock split to avoid delisting.

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### **Leveraged Recapitalization**

Evaluated on a case-by-case basis.

## **2. Restructuring**

### **Mergers and Acquisitions**

Evaluated on a case-by-case basis. Generally vote for mergers and other transactions that will enhance long-term shareholder returns for the company's existing shareholders.

### ***Compensation***

#### **Executive Compensation**

All compensation proposals will be reviewed on a case-by-case basis.

Executive compensation programs should be designed and implemented to ensure alignment of interest with the long-term interests of shareowners and to reasonably reward superior performance that meets or exceeds well-defined and clearly disclosed performance targets that reinforce long-term strategic goals set and approved by the board and written down in advance of the performance cycle.

Executive compensation programs should be transparent to shareowners, and should be fully disclosed, with adequate information to judge the “drivers” of incentive components of compensation packages.

Executive compensation programs should be a combination of cash and equity based compensation, reflect responsibilities, tenure and past performance, be tax efficient, and direct equity ownership should be encouraged.

Special retirement arrangements, including ones structured to permit employees whose compensation exceeds IRS limits to fully participate in similar plans covering other employees, should be consistent with programs offered to the general workforce, and they should be reasonable.

#### **Advisory Votes on Executive Compensation (Say-on-Pay) Management Proposals**

Generally, evaluated on a case-by-case basis.

Vote against management say on pay (MSOP) proposals, AGAINST/WITHHOLD on compensation committee members (or, in rare cases where the full board is deemed responsible, all directors including the CEO), and/or against an equity-based incentive plan proposal IF:

- There is a misalignment between CEO pay and company performance (pay for performance);
- The company maintains problematic pay practices;
- The board exhibits poor communication and responsiveness to shareholders.

#### **Frequency of Say-on-Pay Proposals**

Generally vote in favor of companies providing for annual/regular MSOP proposals.

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### **Advisory Votes on Golden Parachute Proposals**

Evaluate on a case-by-case basis in accordance with existing policies related to severance packages and consistent with our policies on problematic pay practices.

### **Equity Based Compensation**

All plans that provide for the distribution of stock or stock options to employees and/or directors should be submitted to shareholders for approval.

Stock awards should be tied to the achievement of specified goals, and there should be appropriate limits on the size of long-term incentive awards granted to executives

Vote against unspecified exercise price or exercise price below 100% of fair market value on the date of the grant.

Vote against repricing out-of-the-money executive stock options with exercise prices under the market price at the time of issue.

### **Employee Stock Purchase Plans-- Qualified Plans**

Vote against qualified employee stock purchase plans where any of the following apply:

- Purchase price is less than 85 percent of fair market value; or
- Offering period is greater than 27 months; or
- The number of shares allocated to the plan is more than ten percent of the outstanding shares.

### **Employee Stock Purchase Plans-- Non-Qualified Plans**

Vote for nonqualified employee stock purchase plans with all the following features:

- Broad-based participation (i.e., all employees of the company with the exclusion of individuals with 5 percent or more of beneficial ownership of the company);
- Limits on employee contribution, which may be a fixed dollar amount or expressed as a percent of base salary;
- Company matching contribution up to 25 percent of employee's contribution, which is effectively a discount of 20 percent from market value;
- No discount on the stock price on the date of purchase since there is a company matching contribution.

Vote against nonqualified employee stock purchase plans when any of the plan features do not meet the above criteria. If the company matching contribution exceeds 25 percent of employee's contribution, evaluate the cost of the plan against its allowable cap

### **Employee Stock Ownership Plan (ESOP)**

Vote against ESOPs where management's clear purpose is to fend off possible bidders for the company's stock

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Vote against ESOPs when the number of shares allocated to the ESOP is "excessive" (i.e., generally greater than five percent of outstanding shares).

### **Incentive Bonus Plans and Tax Deductibility Proposals (OBRA-Related Compensation Proposals)**

Vote for proposals that simply amend shareholder-approved compensation plans to include administrative features or place a cap on the annual grants any one participant may receive to comply with the provisions of Section 162(m).

Vote for proposals to add performance goals to existing compensation plans to comply with the provisions of Section 162(m) unless they are clearly inappropriate.

Amendments to existing plans to increase shares reserved and to qualify for favorable tax treatment under the provisions of Section 162(m) will be cast as recommended by ISS based on their research and analysis as long as the plan does not exceed the allowable cap and the plan does not violate any other supplemental policies.

Generally vote for cash or cash and stock bonus plans that are submitted to shareholders for the purpose of exempting compensation from taxes under the provisions of Section 162(m) if no increase in shares is requested.

### **Director Compensation**

Directors should be compensated only in cash or stock, with a significant portion of the compensation in stock, and an appropriate vesting or holding period.

Shareholder approval should be required for all equity-based compensation plans that include any director or executive officer of the company.

## **3. Shareholder Proposals on Compensation**

*Disclosure/Setting Levels or Types of Compensation for Executives and Directors:* Generally, vote in favor of shareholder proposals seeking additional disclosure of executive and director pay information, provided the information requested is relevant to shareholders' needs, would not put the company at a competitive disadvantage relative to its industry, and is not unduly burdensome to the company. Oppose shareholder proposals seeking to set absolute levels on compensation or otherwise dictate the amount or form of compensation. Oppose shareholder proposals requiring director fees be paid in stock only.

*Adopt Anti-Hedging/Pledging/Speculative Investments Policy:* Generally vote in favor of shareholder proposals seeking a policy that prohibits named executive officers from engaging in derivative or speculative transactions involving company stock, including hedging, holding stock in a margin account, or pledging stock as collateral for a loan. However, the company's existing policies regarding responsible use of company stock will be considered.

*Bonus Banking/Bonus Banking "Plus":* Vote case-by-case on proposals seeking deferral of a portion of annual bonus pay, with ultimate payout linked to sustained results for the performance metrics on which the bonus was earned (whether for the named executive officers or a wider group of employees), taking into account the following factors:

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- The company's past practices regarding equity and cash compensation;
- Whether the company has a holding period or stock ownership requirements in place, such as a meaningful retention ratio (at least 50 percent for full tenure); and
- Whether the company has a rigorous claw-back policy in place.

*Death Benefits/Golden Coffin:* Generally vote in favor of shareholder proposals calling companies to adopt a policy of obtaining shareholder approval for any future agreements and corporate policies that could oblige the company to make payments or awards following the death of a senior executive in the form of unearned salary or bonuses, accelerated vesting or the continuation in force of unvested equity grants, perquisites and other payments or awards made in lieu of compensation. This would not apply to any benefit programs or equity plan proposals that the broad-based employee population is eligible to receive.

*Performance-Based Awards:* Generally vote in favor of shareholder proposals advocating the use of performance-based awards like indexed, premium-priced, and performance-vested options or performance-based shares, unless: 1) The proposal is overly restrictive (e.g., it mandates that awards to all employees must be performance-based or all awards to top executives must be a particular type, such as indexed options); 2) The company demonstrates that it is using a substantial portion of performance-based awards for its top executives, where substantial portion would constitute 50 percent of the shares awarded to those executives for that fiscal year.

*Pay-for-Superior-Performance Standard:* Generally, vote in favor of shareholder proposals requesting to establish a pay-for-superior-performance standard whereby the company discloses defined financial performance criteria and the detail list of comparative peer group to allow shareholders to sufficiently determine the pay and performance correlation established in the plan. In addition, establish that no award should be paid out unless the company performance exceeds its peer's median or mean performance on the selected financial and stock price performance criteria.

*Severance Agreements for Executives/Golden Parachutes:* Vote in favor of shareholder proposals to require golden parachutes or executive severance agreements to be submitted for shareholder ratification, unless the proposal requires shareholder approval prior to entering into employment contracts. Proposals to ratify or cancel golden parachutes are voted in favor if they include the following: 1) The triggering mechanism should be beyond the control of management; 2) The amount should not exceed three times base amount (defined as the average annual taxable W-2 compensation during the five years prior to the year in which the change of control occurs; 3) Change-in-control payments should be double-triggered, i.e., (a) after a change in control has taken place, and (b) termination of the executive as a result of the change in control. Change in control is defined as a change in the company ownership structure.

*Supplemental Executive Retirement Plans (SERPs):* Generally vote in favor of shareholder proposals requesting to put extraordinary benefits contained in SERP agreements to a shareholder vote unless the company's executive pension plans do not contain excessive benefits beyond what is offered under employee-wide plans. In addition, vote in favor of shareholder proposals urging the board to limit the executive benefits provided under the company's supplemental executive retirement plan (SERP) by

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limiting covered compensation to a senior executive's annual salary and excluding of all incentive or bonus pay from the plan's definition of covered compensation used to establish such benefits.

*Advisory Vote on Compensation:* Generally, vote case-by-case on shareholder proposals that call for non-binding shareholder ratification of the compensation of the named Executive Officers and the accompanying narrative disclosure of material factors provided to understand the Summary Compensation Table.

*Executive Compensation Advisory Proposal:* Generally vote case-by-case on shareholder proposals asking the board to propose an advisory resolution seeking to ratify the compensation of the company's named executive officers (NEOs) on an annual basis. The proposal submitted to shareholders should make it clear that the vote is non-binding and would not have an impact on compensation paid or awarded to any NEO.

*Hold Equity Past Retirement or for a Significant Period of Time:* Generally vote case-by-case on shareholder proposals asking companies to adopt policies requiring senior executive officers to retain all or a significant portion of the shares acquired through compensation plans, either:

- while employed and/or for two years following the termination of their employment ; or
- for a substantial period following the lapse of all other vesting requirements for the award (“lock-up period”), with ratable release of a portion of the shares annually during the lock-up period.

The following factors will be taken into account:

- Whether the company has any holding period, retention ratio or officer ownership requirements in place. These should consist of:
  - Rigorous stock ownership guidelines, or
  - A short-term holding period requirement (six months to one year) coupled with a significant long-term ownership requirement, or
  - A meaningful retention ratio
- Actual officer stock ownership and the degree to which it meets or exceeds the proponent's suggested holding period/retention ratio or the company's own stock ownership or retention requirements.
- Post-termination holding requirement policies or any policies aimed at mitigating risk taking by senior executives;
- Problematic pay practices, current and past, which may promote a short-term versus a long-term focus.
- A rigorous stock ownership guideline should be at least 10x base salary for the CEO, with the multiple declining for other executives. A meaningful retention ratio should constitute at least 50 percent of the stock received from equity awards (on a net proceeds basis) held on a long-term basis, such as the executive's tenure with the company or even a few years past the executive's termination with the company.

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*Prohibit CEOs from serving on Compensation Committees:* Generally vote AGAINST shareholder proposals seeking a policy to prohibit any outside CEO from serving on a company's compensation committee, unless the company has demonstrated problematic pay practices that raise concerns about the performance and composition of the committee.

*Claw-back of Payments Under Restatements:* When voting on shareholder proposals requesting clawbacks of bonuses or equity, the following factors are generally considered on a case-by-case basis: 1) the coverage of employees, whether it applies to all employees, senior executives or only employees committing fraud which resulted in the restatement; 2) the nature of the proposal where financial restatement is due to fraud; whether or not the company has had material financial problems resulting in chronic restatements; and, 3) the adoption of a robust and formal bonus/equity recoupment policy. If a company's bonus recoupment policy provides overly broad discretion to the board in recovering compensation, generally vote FOR the proposal. If the proposal seeks bonus recoupment from senior executives or employees committing fraud, generally vote FOR the proposal.

*Termination of Employment Prior to Severance Payment and Eliminating Accelerated Vesting of Unvested Equity:* Generally vote case-by-case on shareholder proposals seeking a policy requiring termination of employment prior to severance payment, and eliminating accelerated vesting of unvested equity. Change-in-control payouts without loss of job or substantial diminution of job duties (single-triggered) are considered a poor pay practice under our policy, and may even result in withheld votes from compensation committee members. The second component of this proposal — related to the elimination of accelerated vesting — requires more careful consideration. The following factors will be taken into consideration regarding this policy.

- The company's current treatment of equity in change-of-control situations (i.e. is it double triggered, does it allow for the assumption of equity by acquiring company, the treatment of performance shares.
- Current employment agreements, including potential poor pay practices such as gross-ups embedded in those agreements.

Generally vote FOR proposals seeking a policy that prohibits acceleration of the vesting of equity awards to senior executives in the event of a change in control (except for pro rata vesting considering the time elapsed and attainment of any related performance goals between the award date and the change in control).

*Tax Gross-Up Proposals:* Generally vote in favor of shareholder proposals calling for companies to adopt a policy of not providing tax gross-up payments to executives, except in situations where gross-ups are provided pursuant to a plan, policy, or arrangement applicable to management employees of the company, such as a relocation or expatriate tax equalization policy.

All other shareholder proposals regarding executive and director pay will be voted taking into account company performance, pay level versus peers, pay level versus industry, and long term corporate outlook.

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### ***Social/Environmental Issues***

#### **Anti-Social Proposals**

Generally vote against proposals that seek to regress a company's established environmental and social activities.

#### **1. Animal Rights**

Vote case-by-case on proposals to phase out the use of animals in product testing, taking into account:

- The nature of the product and the degree that animal testing is necessary or federally mandated (such as medical products)
- The availability and feasibility of alternatives to animal testing to ensure product safety
- The degree that competitors are using animal-free testing
- Generally vote FOR proposals seeking a report on the company's animal welfare standards unless:
- The company has already published a set of animal welfare standards and monitors compliance
- The company's standards are comparable to or better than those of peer firms, and
- There are no serious controversies surrounding the company's treatment of animals

Generally vote case-by-case proposals seeking a report on the feasibility of implementing controlled atmosphere killing (CAK) methods into company and supplier operations.

#### **2. Consumer Issues**

##### **Genetically Modified Foods (GMO)**

Vote case-by-case on proposals asking for a report on the feasibility of labeling products containing GMO ingredients taking into account:

- The relevance of the proposal in terms of the company's business and the proportion of it affected by the resolution
- The quality of the company's disclosure on GMO product labeling and related voluntary initiatives and how this disclosure compares with peer company disclosure
- The company's current disclosure on the feasibility of GMO product labeling, including information on the related costs
- Any voluntary labeling initiatives undertaken or considered by the company.

Vote case-by-case on proposals asking for reports on the financial, legal, and environmental impact of continued use of GMO ingredients/seeds, taking into account:

- The relevance of the proposal in terms of the company's business and the proportion of it affected by the resolution



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- The quality of the company's disclosure on risks related to GMO product use and how this disclosure compares with peer company disclosure
- The percentage of revenue derived from international operations, particularly in Europe, where GMO products are more regulated and consumer backlash is more pronounced.

Generally vote against proposals asking companies to voluntarily label genetically modified (GMO) ingredients in their products or alternatively to provide interim labeling and eventually eliminate GMO ingredients due to the costs and feasibility of labeling and/or phasing out the use of GMO ingredients.

Generally vote against on proposals seeking a report on the health and environmental effects of genetically modified organisms (GMOs). Health studies of this sort are better undertaken by regulators and the scientific community.

Generally vote against proposals to completely phase out GMO ingredients from the company's products or proposals asking for reports outlining the steps necessary to eliminate GMO ingredients from the company's products. Such resolutions presuppose that there are proven health risks to GMO ingredients (an issue better left to federal regulators) that outweigh the economic benefits derived from biotechnology.

### **Predatory Lending**

Generally vote for reports on the company's procedures for preventing predatory lending, including the establishment of a board committee for oversight, unless it would cause the company to incur excessive costs, taking into account:

- The extent of the company's consumer lending operations
- Whether the company adequately discloses mechanisms in place to prevent abusive lending practices
- Whether the company adequately discloses the financial risks of its sub-prime business
- If the company was subject to violations of lending laws or serious lending controversies
- Peer companies' policies to prevent abusive lending practices

### **Drug Pricing (Pharmaceutical Companies)**

Vote case-by-case on proposals asking the company to implement price restraints on pharmaceutical products, taking into account:

- Whether the proposal focuses on a specific drug and region
- Whether the economic benefits of providing subsidized drugs (e.g., public goodwill) outweigh the costs in terms of reduced profits, lower R&D spending, and harm to competitiveness
- The extent that reduced prices can be offset through the company's marketing budget without affecting R&D spending
- Whether the company already limits price increases of its products

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- Whether the company already contributes life-saving pharmaceuticals to the needy and Third World countries
- The extent that peer companies implement price restraints

### **HIV/AIDS**

Generally vote for requests for reports outlining the impact of the health pandemic (HIV/AIDS, malaria, and tuberculosis) on the company's operations and how the company is responding to it, taking into account:

- The nature and size of the company's operations in affected regions and the number of local employees
- The company's existing healthcare policies, including benefits and healthcare access for local workers
- Company donations to healthcare providers operating in the region
- Generally vote FOR proposals asking pharmaceutical companies to establish, implement, and report on a standard of response to the HIV/AIDS, tuberculosis and malaria health pandemic, taking into account:
- The company's actions in developing countries to address HIV/AIDS, tuberculosis and malaria, including donations of pharmaceuticals and work with public health organizations
- The company's initiatives in this regard compared to those of peer companies

### **Product Safety**

Vote for proposals requesting the company to report on its policies, initiatives/procedures, oversight mechanisms related to toxic materials, including certain product line toxicities, and/or product safety in its supply chain, unless:

- The company already discloses similar information through existing reports or policies such as a Supplier Code of Conduct and/or a sustainability report;
- The company has formally committed to the implementation of a toxic materials and/or product safety and supply chain reporting and monitoring program based on industry norms or similar standards within a specified time frame; and
- The company has not been recently involved in relevant significant controversies or violations.

### **Toxic Chemicals**

Generally vote for shareholder proposals that request the company disclose its policies related to toxic chemicals.

Generally vote for shareholder proposals seeking the preparation of a report discussing the potential financial and legal risks associated with utilizing certain chemicals and/or the implications of adopting a policy for phasing out toxic chemicals of concern and the.

Vote case-by-case on proposals calling for the company to adopt a policy of phasing out toxic chemicals of concern.

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### **Harmful Ingredients in Cosmetic Products**

Generally vote for shareholder proposals asking companies to report on the feasibility of removing, or substituting with safer alternatives, all “harmful” ingredients used in company products.

### **Stronger product warnings**

Generally vote for proposals seeking stronger product warnings.

### **Tobacco**

#### *Advertising to youth:*

Vote for proposals that would extend restrictions on the marketing of tobacco products to youth in foreign countries.

#### *Second-hand smoke:*

Generally vote for proposals asking that the company's operating facilities be smoke-free.

#### *Cease production/sale of cigarette components:-*

Vote case-by-case on proposals asking the company to cease production of tobacco-related products or cease selling products to tobacco companies, taking into account:

- The percentage of the company's business affected
- The economic loss of eliminating the business versus any potential tobacco-related liabilities

#### *Spin-off tobacco-related businesses:*

Vote case-by-case on proposals to spin off a tobacco-related unit, taking into account:

- The percentage of the company's business affected
- The feasibility of a spin-off
- Potential future liabilities related to the company's tobacco business

#### *Investment in tobacco stocks:*

Vote against proposals prohibiting investment in tobacco equities. Such decisions are better left to portfolio managers.

### **Handguns**

Generally vote against reports on a company's policies aimed at curtailing gun violence in the United States unless the report is confined to product safety information. Criminal misuse of firearms is beyond corporate control, but rather is the purview of law enforcement agencies.

### **Adult Entertainment**

Generally vote for shareholder proposals that seek a review of the company's involvement with pornography. Generally vote FOR shareholder proposals asking for reports on company policies related to the sale of mature-rated video games to children and teens.

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### **Racial Stereotypes in Advertising**

Generally vote for shareholder proposals seeking more careful consideration of using racial stereotypes in advertising campaigns, including preparation of a report.

## **3. Climate Change and the Environment**

### **Global Warming (Climate Change)**

Generally vote for requests requesting reports on the level of greenhouse gas emissions from the company's operations and products, unless the report is duplicative of the company's current environmental disclosure and reporting or is not integral to the company's line of business. However, additional reporting may be warranted if:

- The company's level of disclosure lags that of its competitors,
- The company does not provide current, publicly-available information on the perceived impact that climate change may have on the company as well as associated policies and procedures to address such risks and/or opportunities; or
- The company has a poor environmental track record, such as violations of federal and state regulations

Generally vote for shareholder proposals requesting the company adopt greenhouse gas (GHG) reduction policies and/or emissions reduction goals, taking into account:

- The company's existing GHG policies and goals, as well as those of its peers
- The scope and economic impact of the request and implementation
- Recent litigation, controversy, or legislation surrounding the company

Generally vote for shareholder proposals requesting greater disclosure on company plans for the expansion or creation of coal-fired power plants. Generally vote FOR shareholder proposals seeking a report assessing the potential or anticipated environmental impacts of new coal-fired power plants.

### **General Environmental Reports**

Generally vote for proposals requesting reports disclosing the company's environmental policies unless it already has well-documented environmental management systems that are available to the public.

### **Community Impact Assessments**

Vote case-by-case on requests for reports outlining the potential community impact of company operations in specific regions considering:

- Current disclosure of applicable risk assessment report(s) and risk management procedures;
- The impact of regulatory non-compliance, litigation, remediation, or reputational loss that may be associated with failure to manage the company's operations in question, including the management of relevant community and stakeholder relations;
- The nature, purpose, and scope of the company's operations in the specific region(s); and

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- The degree to which company policies and procedures are consistent with industry norms.

### **Water Use**

Generally vote for shareholder proposals seeking the preparation of a report on a company's risks linked to water use.

### **Energy Efficiency**

Vote case-by-case on proposals requesting a company report on its energy efficiency policies, considering:

- The current level of disclosure related to energy efficiency policies, initiatives, and performance measures;
- The company's level of participation in voluntary energy efficiency programs and initiatives;
- The company's compliance with applicable legislation and/or regulations regarding energy efficiency; and
- The company's energy efficiency policies and initiatives relative to industry peers.

### **Facility Safety Policy**

Vote case-by-case on resolutions requesting that companies report on risks associated with their operations and/or facilities, considering:

- The company's compliance with applicable regulations and guidelines;
- The level of existing disclosure related to security and safety policies, procedures, and compliance monitoring; and
- The existence of recent, significant violations, fines, or controversy related to the safety and security of the company's operations and/or facilities.

### **Environmental-Economic Risk Report**

Generally vote for proposals requesting reports assessing economic risks of environmental pollution or climate change, taking into account whether the company is already doing so.

### **Arctic National Wildlife Refuge**

Generally vote for requests requesting reports outlining potential environmental damage from drilling in the Arctic National Wildlife Refuge (ANWR).

### **Recycling**

Generally vote for proposals to adopt a comprehensive recycling strategy, taking into account the nature of the company's business and the percentage affected.

### **Renewable Energy**

Vote case-by-case on proposals to invest in renewable energy sources, taking into account:

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- The nature of the company's business and the percentage affected
- The extent that peer companies are switching from fossil fuels to cleaner sources
- The timetable and specific action prescribed
- The costs of implementation
- The company's initiatives to address climate change

Generally vote for requests for reports on the feasibility of developing renewable energy sources, unless the report is duplicative of the company's current environmental disclosure and reporting or is not integral to the company's line of business.

### **4. Diversity**

#### **Board Diversity**

Generally vote for requests for reports on the company's efforts to diversify the board, unless:

- The board composition is reasonably inclusive in relation to companies of similar size and business, and
- The board already reports on its nominating procedures and diversity initiatives

Vote case-by-case on proposals asking the company to increase the representation of women and minorities on the board, taking into account:

- The degree of board diversity
- Comparison with peer companies
- Established process for improving board diversity
- Existence of independent nominating committee
- Use of outside search firm
- History of EEO violations

#### **Equal Opportunity Reports**

Generally vote for requests for reports outlining the company's affirmative-action initiatives unless:

- The composition of senior management and the board is inclusive,
- The company has well-documented equal opportunity programs,
- The company already publicly reports on its company-wide affirmative-action initiatives and provides data on its workforce diversity, and
- The company has no recent EEO-related violations or litigation.

Generally vote for proposals seeking information on the diversity efforts of suppliers and service providers, which can pose a significant cost and administrative burden on the company, unless:

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- The composition of senior management and the board is inclusive,
- The company has well-documented equal opportunity programs,
- The company already publicly reports on its company-wide affirmative-action initiatives and provides data on its workforce diversity, and
- The company has no recent EEO-related violations or litigation.

### **Sexual Orientation**

Generally vote for proposals to amend the company's Equal Employment Opportunity (EEO) statement to include reference to sexual orientation, unless the implementation of a policy would result in excessive costs for the company.

Vote case-by-case on proposals regarding extension of company benefits to domestic partners, taking into account the costs of doing so.

## **5. General Corporate Issues**

### **Charitable and Political Issues**

Generally vote for proposals asking the company to affirm political nonpartisanship in the workplace

Generally vote for proposals to make public the company's political contributions. Federal and state laws restrict the amount of corporate contributions and include reporting requirements.

Vote case-by-case on proposals disallowing the company from making political contributions. Businesses are affected by legislation at the federal, state, and local level and barring contributions can put the company at a competitive disadvantage.

Vote case-by-case on proposals restricting the company from making charitable contributions. Charitable contributions are generally useful for assisting worthwhile causes and for creating goodwill in the community. In the absence of bad faith, self-dealing, or gross negligence, management should determine which contributions are in the best interests of the company

Vote case-by-case on proposals requesting information on a company's lobbying initiatives, considering any significant controversy or litigation surrounding a company's public policy activities, the current level of disclosure on lobbying strategy, and the impact that the policy issue may have on the company's business operations.

### **Link Executive Compensation to Social Performance**

Vote case-by-case on proposals to review ways of linking executive compensation to factors such as corporate downsizings, customer or employee satisfaction, community involvement, human rights, environmental performance, predatory lending, and executive/employee pay disparities. Such resolutions should be evaluated in the context of:

- The relevance of the issue to be linked to pay
- Violations or complaints filed against the company relating to the particular measure
- Artificial limits sought by the proposal, such as freezing or capping executive pay

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- Degree of independence of the compensation committee
- Current company pay levels
- Financial Performance of the company

### **6. International Issues, Labor Issues, and Human Rights**

#### **Country-Specific Human Rights Reports**

Generally vote for requests requesting reports outlining vendor standards compliance unless either:

- The company does not operate in countries with significant human rights violations
- The company has no recent human rights controversies or violations
- The company already publicly disclosed information on its vendor standards compliance

Generally vote for requests requesting reports detailing the company's operations in a particular country and steps to protect human rights, based on:

- The nature and amount of company business in the country
- The company's workplace code of conduct
- Proprietary and confidential information involved
- Company compliance with U.S. regulations on investing in the country
- Level of peer company involvement in the country

#### **International Codes of Conduct/Vendor Standards**

Generally vote for proposals to implement certain human rights standards at company facilities or those of its suppliers and to commit to outside, independent monitoring. In evaluating these proposals, the following should be considered:

- The company's current workplace code of conduct or adherence to other global standards and the degree they meet the standards promulgated by the proponent
- Agreements with foreign suppliers to meet certain workplace standards
- Whether company and vendor facilities are monitored and how
- Company participation in fair labor organizations
- Type of business
- Proportion of business conducted overseas
- Countries of operation with known human rights abuses
- Whether the company has been recently involved in significant labor and human rights controversies or violations
- Peer company standards and practices
- Union presence in company's international factories



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### **Internet Privacy and Censorship**

Vote case-by-case on resolutions requesting that companies report on risks associated with their operations and/or facilities, considering:

- The company's compliance with applicable regulations and guidelines;
- The level of existing disclosure related to security and safety policies, procedures, and compliance monitoring; and
- The existence of recent, significant violations, fines, or controversy related to the safety and security of the company's operations and/or facilities.

### **MacBride Principles**

Generally vote for proposals to endorse or increase activity on the MacBride Principles, taking into account:

- Company compliance with or violations of the Fair Employment Act of 1989
- Company antidiscrimination policies that already exceed the legal requirements
- The cost and feasibility of adopting all nine principles
- The cost of duplicating efforts to follow two sets of standards (Fair Employment and the MacBride Principles)
- The potential for charges of reverse discrimination
- The potential that any company sales or contracts in the rest of the United Kingdom could be negatively impacted
- The level of the company's investment in Northern Ireland
- The number of company employees in Northern Ireland
- The degree that industry peers have adopted the MacBride Principles
- Applicable state and municipal laws that limit contracts with companies that have not adopted the MacBride Principles.

### **Operations in High-Risk Markets**

Vote case-by-case on requests for the company to review and report on the financial and reputation risks associated with operations in "high risk" markets, such as a terrorism-sponsoring state or otherwise, taking into account:

- The nature, purpose, and scope of the operations and business involved that could be affected by social or political disruption;
- Current disclosure of applicable risk assessment(s) and risk management procedures;
- Compliance with U.S. sanctions and laws;
- Consideration of other international policies, standards, and laws; and
- Recent involvement in significant controversies or violations in "high risk" markets.

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### **Outsourcing**

Generally vote for shareholders proposals asking for companies to report on the risks associated with outsourcing or off-shoring.

## **7. Sustainability**

### **Sustainability Reports**

Generally vote for shareholder proposals seeking greater disclosure on the company's environmental practices, and/or environmental risks and liabilities. Generally vote FOR shareholder proposals asking companies to report in accordance with the Global Reporting Initiative (GRI).

### **CERES Principles**

Generally vote for proposals to adopt the CERES Principles, taking into account:

- The company's current environmental disclosure beyond legal requirements, including environmental health and safety (EHS) audits and reports that may duplicate CERES
- The company's environmental performance record, including violations of federal and state regulations, level of toxic emissions, and accidental spills
- Environmentally conscious practices of peer companies, including endorsement of CERES
- Use of independent, third-party monitoring
- Costs of membership and implementation

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### ***III NON-U.S. PROXY ISSUES***

*Approved by the Board of Trustees March 15, 2011.*

The non-U.S. items enumerated below are intended to supplement our general proxy voting policy.

#### ***A. Operational Items***

##### **Routine Agenda Items**

In some markets, shareholders are routinely asked to approve:

- the opening of the shareholder meeting
- acknowledge proper convening of meeting
- that the meeting has been convened under local regulatory requirements
- the presence of quorum
- the agenda for the shareholder meeting
- the election of the chair of the meeting
- the appointment of shareholders to co-sign the minutes of the meeting
- regulatory filings
- the designation of inspector or shareholder representative(s) of minutes of meeting
- the designation of two shareholders to approve and sign minutes of meeting
- the allowance of questions
- the publication of minutes
- the closing of the shareholder meeting
- authorize board to ratify and execute approved resolutions
- prepare and approve list of shareholders

As these are typically formalities associated with the convening of general shareholder meetings, generally vote for these and similar routine management proposals.

##### **Financial Results/Director and Auditor Reports**

Generally vote for approval of financial statements and director and auditor reports, unless: there are concerns about the accounts presented or audit procedures used; or the company is not responsive to shareholder questions about specific items that should be publicly disclosed.

##### **Change in Company Fiscal Term**

Vote for proposals to change a company's fiscal term unless a company's motivation for the change is to postpone its Annual General Meeting.

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### **Allocation of Income and Dividends**

Generally vote for approval of the allocation of income, unless: the dividend payout ratio has been consistently below 30 percent without adequate explanation; or, the payout is excessive given the company's financial position.

### **Stock (Scrip) Dividend Alternative**

Generally vote FOR stock (scrip) dividend proposals. However, vote against proposals that do not allow for a cash option unless management demonstrates that the cash option is harmful to shareholder value.

### **Amendments to the Articles of Association**

Generally vote FOR proposals to amend articles of association if shareholder rights are protected; there is negligible or positive impact on shareholder value; management provides adequate reasons for the amendments; and, the company is required to do so by law (if applicable). Generally vote AGAINST proposals to amend articles of association if the amendment is deemed not to be in the long-term economic best interest of shareholders.

### **Amend Quorum Requirements**

Generally vote against proposals to lower the quorum requirement, unless the proposal is consistent with market norms, the company's reasons for the change is in line with shareholders' interests, and the company's ownership structure would not hamper wider shareholder participation. Companies that have a substantial shareholder or shareholder group should set their quorum requirement well above the percentage of shares owned by such shareholder or shareholder group. Quorum requirements are intended to ensure that a broad range of shareholders is represented at meetings.

### **Appointment of Internal Statutory Auditors**

The appointment of internal statutory auditors is a routine request for companies in several markets. In addition to the regular duty of verifying corporate accounts, the auditor board is responsible for supervising management and ensuring compliance with the law and articles of association. The auditors must perform an audit of the accounts every three months and present to shareholders a report on the balance sheet at the AGM. For most countries, the auditors are elected annually and may seek reelection. Vote FOR the appointment of statutory auditors unless there are serious concerns about the reports presented or questions about an auditor's qualifications, including whether the auditor has previously served the company in an executive capacity or can otherwise be considered affiliated with the company.

## **B. BOARD OF DIRECTORS**

### **Election of Directors (Non-U.S.)**

Vote FOR management nominees in the election of directors, unless:

- Adequate disclosure has not been provided in a timely manner;

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- There are clear concerns over questionable finances or restatements;
- There have been questionable transactions with conflicts of interest;
- There are any records of abuses against minority shareholder interests; or
- The board fails to meet minimum corporate governance standards.

Vote FOR individual nominees unless there are specific concerns about the individual, such as criminal wrongdoing or breach of fiduciary responsibilities.

Vote FOR shareholder nominees if they satisfy reasonable qualifications for board membership.

Vote AGAINST individual directors if repeated absences at board meetings have not been explained (in countries where this information is disclosed).

### **Discharge of the Board and Management**

In several non-U.S. markets, shareholders are asked to approve actions taken by the board and management during the year. The annual formal discharge is a tacit vote of confidence in the company's management. Generally vote for discharge of the board and management, unless: there are serious questions about actions of the board or management for the year in question; or, legal action is being taken against the board by other shareholders. In addition, vote against proposals to remove the annual discharge of board and management from the agenda.

### **Executive Compensation**

All compensation proposals will be reviewed on a case-by-case basis.

### **Director Compensation**

Vote FOR proposals to award cash fees to non-executive directors unless the amounts are excessive relative to other companies in the country or industry.

### **Retirement Bonuses for Directors and Statutory Auditors**

Generally vote AGAINST payment of retirement benefits to non-executive directors and statutory auditors. When one or more of the individuals to whom the grants are being proposed has not served in an executive capacity for the company for at least three years, oppose payment, particularly as the size of these payments may be at the discretion of the board. If any one individual does not meet our criteria, vote AGAINST the entire proposal.

## **C. CAPITAL STRUCTURE**

### **Issuance of Shares With or Without Preemptive Rights**

*General Issuances:* Generally, vote for proposals for the issuance of shares with preemptive rights to a maximum of 100 percent over currently issued capital and for proposals for the issuance of shares without preemptive rights to a maximum of 20 percent of currently issued capital. Generally vote against proposals for the general issuance of shares with or without preemptive rights above and beyond the aforementioned thresholds.

*Specific Issuances:* Generally vote on a case-by-case basis based on the individual merits.

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### **Shares Repurchase Plans**

Generally vote for share repurchase plans, unless: clear evidence of past abuse of the authority is available; or, the plan contains no safeguards against selective buybacks.

### **Reissuance of Repurchased Shares**

Generally vote FOR proposals to reissue any repurchased shares unless there is clear evidence of abuse of this authority in the past.

### **Reduction of Capital**

This proposal may ask shareholders to allow the board to reduce the company's deficit and create a contributed surplus by effecting a reduction in the stated capital of the company's common shares. A company may take this action if its net assets are in danger of falling below the aggregate of its liabilities and its stated capital. Should that situation occur, under some corporate law statutes the company would be prohibited from paying dividends on its shares. A company may also seek a reduction in capital corresponding to the cancellation of shares repurchased in connection with an earlier buyback authorization. The amount of equity that may be cancelled is usually limited to ten percent by national law. This type of proposal is seen in several markets and is considered a routine accounting measure.

Generally vote for the proposals as they are considered to be routine accounting measures.

### **Capitalization of Reserves for Bonus Issue/Increase in Par Value**

Generally vote for proposals to capitalize reserves for bonus issues of shares or to increase par value.

### **Adjust Par Value of Common Stock**

Vote for management proposals to reduce par value of common stock.

### **Increase in Borrowing Powers**

Generally vote for proposals to approve increases in a company's borrowing powers after taking into account management's stated need for the increase, the size of the increase, and the company's current debt-to-equity ratio or gearing level. Large increases in borrowing powers can sometimes result in dangerously high debt-to-equity ratios that could harm shareholder value. If an increase is excessive without sufficient justification and if a company already has exceptionally high debt-to-equity ratio compared to its industry, generally vote AGAINST the proposal.

### **Pledging of Assets for Debt**

Generally vote for proposals to approve the pledging of a company's assets for debt. In certain countries, shareholder approval is required when a company needs to secure a debt issuance with its assets. In many cases, this is a routine request and is a formality under the relevant law. When reviewing such proposals, take into account the terms of the proposed debt issuance and the company's overall debt level. If both of these factors are acceptable, vote FOR the request.

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### **D. OTHER ITEMS**

#### **Mandatory Takeover Bid Waivers**

Generally vote AGAINST proposals to waive mandatory takeover bid requirements. The requirement that a takeover bid should be launched when a substantial amount of shares have been acquired prevents the entrenchment of the controlling shareholder and protects minority owners. However, vote in favor of a waiver of mandatory takeover bid requirements when the event prompting the takeover bid is a repurchase by the company of its own shares. When a company repurchases its own shares, the relative stake of a large shareholder increases even though the number of shares held by the large shareholder has not changed. In certain markets, notably the United Kingdom, Ireland and Australia, the mandatory bid rules require a large shareholder to make a takeover bid if its stake in the company is increased on a relative basis as a result of a share repurchase by the company. Companies in these markets may seek a waiver from the takeover bid requirement applicable to their large shareholder. Under certain circumstances, generally vote FOR such a waiver if the share repurchase would not push the large shareholder's stake in the company above 50 percent.

#### **Renew Partial Takeover Provision**

Generally vote for the adoption of this proposal as this article provides protection for minority shareholders by giving them ultimate decision-making authority based on their own interests. Australian law allows companies to introduce into their articles a provision to protect shareholders from partial takeover offers, to be renewed by shareholders every three years. If a partial takeover of the company is announced, directors are required to convene a shareholder meeting at least 15 days before the closing of the offer to seek approval of the offer. If shareholders reject the resolution, the offer is considered withdrawn under company law and the company can refuse to register the shares tendered to the offers.

#### **Expansion of Business Activities**

Generally vote for the expansion of business activities unless the new business takes the company into risky areas.

#### **Control and Profit Transfer Agreements**

Generally vote FOR management proposals to approve control and profit transfer agreements between a parent and its subsidiaries.

#### **Depository Receipts and Priority Shares**

Generally vote against the introduction of depository receipts and priority shares.

Depository receipts are an especially common antitakeover defense among large Dutch companies. Ordinary voting shares are first issued to a company-friendly trust or foundation. The trust or foundation in turn issues depository receipts, but the foundation retains the voting rights of the issued security. The depository receipts carry only the financial rights attached to the shares (i.e., dividends). In this manner, the company gains access to capital while retaining control over voting rights.

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Priority shares, established in a company's articles, may be awarded with certain powers of control over the rest of the company. In practice, priority shares are held by members of the supervisory board, company-friendly trusts or foundations, or other friendly parties. Depending on the articles, priority shareholders may determine the size of the management or supervisory boards or may propose amendments to articles and the dissolution of the company.

### **Remuneration Report**

In several non-U.S. markets, including the United Kingdom, Sweden, Australia, and the Netherlands, shareholders are given the opportunity to ratify the company's equity based, and cash compensation policies. Generally vote for the routine approval of remuneration reports in non-U.S. markets.

### **Issuance of Free Warrants**

Generally vote against the issuance of free warrants. Such warrants, when issued, are granted to all the shareholders for free and enable them to subscribe for shares (of the same issuer) under preferential conditions. This resolution clearly qualifies as an antitakeover device since the warrants issue would take place during a public offer and be automatically cancelled if the offer fails or is removed. The warrants issue would potentially result in the company's share capital being massively increased during an offer and therefore would make it extremely difficult for a bidder to take control of the target.